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# CHINA-JAPAN OIL TRADE SLOWS

ANNCR:

JAPANESE IMPORTS OF CRUDE OIL FROM THE PEOPLE'S REPUBLIC OF CHINA HAVE BEEN AN INCREASINGLY IMPORTANT ITEM IN TRADE BETWEEN THE TWO ASIAN NATIONS. AND, UNTIL RECENTLY, THERE WERE PREDICTIONS OF FURTHER GROWTH. BUT THE SITUATION SEEMS TO HAVE CHANGED...AS WE HEAR IN THIS BACKGROUND REPORT BY VOA'S JOSEPH SULLIVAN.

VOICE:

FOUR YEARS AGO PEKING TURNED TO THE JAPANESE MARKET WHEN IT BECAME APPARENT THAT CHINA'S OIL PRODUCTION WAS RAPIDLY OUTPACING DOMESTIC DEMANDS. JAPANESE IMPORTS OF CHINESE OIL ROSE RAPIDLY FROM AN INITIAL ONE MILLION METRIC TONS IN 1972 TO EIGHT MILLION TONS IN 1975. FOR PEKING, THE OIL TRADE HAS BEEN A VALUABLE SOURCE OF FOREIGN EXCHANGE AND ALSO HAS HELPED TO REDUCE CHINA'S UNFAVORABLE BALANCE OF TRADE WITH JAPAN.

THE RAPID GROWTH OF SINO-JAPANESE OIL TRADE PROMPTED PREDICTIONS THAT JAPAN, BY 1977, WOULD BE ASSURED AS MUCH OIL FROM CHINA AS THE SOVIET UNION HAS PROMISED TOKYO FOR JAPANESE INVESTMENTS IN THE TYUMEN OIL FIELD PROJECT. HOWEVER, THERE IS NOW STRONG EVIDENCE THAT JAPANESE IMPORTS OF CHINESE OIL THIS YEAR MAY DECLINE AS MUCH AS TWENTY-FIVE PERCENT IN TERMS OF 1975 IMPORTS.

THIS PREDICTION IS BASED ON NEWS THAT JAPAN'S PRINCIPAL BUYER OF CHINESE OIL -- INTERNATIONAL PETROLEUM (KOKUSAI SEKIYU) -- HAS CONCLUDED ITS CONTRACT FOR 1976 AND WILL IMPORT FOUR MILLION METRIC TONS OF CRUDE OIL, WITH AN OPTION

TO BUY ANOTHER TWO MILLION TONS. THE LOWER FIGURE IS ONE MILLION SEVEN HUNDRED THOUSAND TONS BELOW WHAT INTERNATIONAL PETROLEUM PURCHASED LAST YEAR. IN EARLY MARCH, THE CHINA IMPORTING COUNCIL -- A JAPANESE CONSORTIUM -- SIGNED AN AGREEMENT WITH CHINESE REPRESENTATIVES FOR TWO MILLION ONE HUNDRED THOUSAND MILLION TONS OF CHINESE CRUDE...TWELVE-AND-A-HALF PERCENT LESS THAN THE CONSORTIUM PURCHASED IN 1975.

PETROLEUM EXPERTS AGREE THAT CHINA HAS THE POTENTIAL OF BECOMING ONE OF THE WORLD'S LARGEST OIL PRODUCERS. (OPT) WITH CRUDE OIL PRODUCTION INCREASING AT AN ANNUAL RATE OF SOME TWENTY PERCENT, OBSERVERS BELIEVE THAT CHINA COULD BE PRODUCING AT LEAST TWO HUNDRED MILLION TONS OF CRUDE OIL EACH YEAR BY THE END OF THIS DECADE. (END OPT) THERE IS, HOWEVER, MUCH LESS AGREEMENT ON CHINA'S POTENTIAL AS A MAJOR WORLD EXPORTER. FOR ONE THING, CHINESE OIL IS HEAVIER THAN ARABIAN OIL AND MUCH HIGHER IN WAX CONTENT. THIS MAKES IT COSTLIER TO REFINER, AND REQUIRES LARGE CAPITAL OUTLAYS TO BUILD CRACKING PLANTS TO PROCESS THE HEAVY OIL. THE REFINING OF CHINESE OIL ALSO REQUIRES HIGHER TEMPERATURES THAN ARE USED IN THE REFINING ARAB OIL TO ELIMINATE THE WAX.

AT THE SAME TIME, CHINESE PORTS STILL CAN HANDLE TANKERS ONLY ONE-SIXTH THE SIZE OF THE SUPERTANKERS -- FIFTY-THOUSAND-TON TANKERS, COMPARED TO THE THREE-HUNDRED-THOUSAND TON SUPERTANKERS THAT CAN BERTH AT OIL PORTS IN THE MIDDLE EAST. THUS, DESPITE CHINA'S GEOGRAPHIC PROXIMITY TO JAPAN, TRANSPORT COSTS FOR CHINESE OIL ARE RELATIVELY MORE EXPENSIVE.

OBSERVERS BELIEVE THAT TOKYO'S WILLINGNESS TO PURCHASE INCREASED QUANTITIES OF CHINESE CRUDE OIL WILL DEPEND TO A LARGE EXTENT ON ITS EAGERNESS TO INCREASE JAPANESE EXPORTS

TO CHINA. CHINA LAST YEAR RECORDED A DEFICIT OF SOME SEVEN HUNDRED THOUSAND DOLLARS IN ITS TRADE WITH JAPAN. THAT'S ROUGHLY EQUAL TO THE VALUE OF CHINESE CRUDE OIL SALES TO JAPAN IN 1975. AND PEKING, IT'S SAID, IS UNLIKELY TO TOLERATE CONTINUED DEFICITS IN CHINA'S TRADE WITH JAPAN WITHOUT FIRM COMMITMENTS FROM TOKYO ASSURING INCREASING CHINESE EXPORTS TO JAPAN.

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